Audit Highlights

Background:

Engineering is a division of the Public Works Department lead by the Deputy Public Works Director (City Engineer). Internal Audit primarily interacted with the Engineering Services Manager (in charge of procurement, contract administration, and budget) and the Capital Improvement Project (CIP) Design and Construction Manager.

Objectives:

Determine whether:

- ⇒Internal controls and segregation of duties are in place to ensure:
- (1) the appropriate evaluation and selection of qualified vendors.
- (2) adherence to vendor selection policies, procedures, laws and regulations,
- (3) documentation is maintained and reviewed that supports selection decisions made.
- (4) projects are appropriately distributed among available qualified vendors, and
- (5) projects are assigned to project managers based on consistently applied objectives
- ⇒Budgeted and actual project costs are realistically established, tracked, and monitored to ensure that the contracted scope of work is completed and that changes to the scope of work are appropriately evaluated, approved, and monitored.

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Audit of Engineering Procurement

Conclusion: Overall, we determined that there are generally adequate internal controls in place over the evaluation and selection of qualified vendors and project management. We also found overall compliance with relevant ARS statutes and regulations, and related departmental policies and procedures except as noted in the observations that follow. We did identify exceptions related to: the proper completion of Statement of Qualifications Evaluation Forms, adherence to contractual agreements, supporting documentation for addendums, change orders and payment requests, and tracking and reconciliation of project costs. We also identified opportunities for Engineering to increase the efficiency and effectiveness of their project management and internal control structure.

Management and staff made significant efforts to address issues identified by Internal Audit as they surfaced during the course of this audit. They either took immediate corrective action or initiated research into the issues to find solutions.

Projects Reviewed

1. Design Bid Build (DBB)

Light Rail Transit Corridor CCTV Monitoring (Light Rail CCTV)

Provides Closed Circuit TV (CCTV) camera coverage of the 29 signalized intersections on the light rail alignment in the City of Tempe. This project consisted of one prime contract for \$278,700. The DBB method was used and the contract was awarded to the lowest responsive bidder. Work commenced in March, 2013.

2. Construction Manager at Risk (CMAR)

Tempe Town Lake Downstream Dam Replacement (Dam Replacement)

This project is for the design and construction of a dam to replace the current structure at the west end of Tempe Town Lake. Total project budget (including the procurement of the hydraulic gates) of approximately \$40 million.

3. Construction Manager at Risk (CMAR)

Johnny G. Martinez Water Treatment Quality Upgrades (JGM Upgrades)

This project includes planning, design, permitting and construction of facilities to improve water quality at the Johnny G. Martinez Water Treatment Plant .This has been an ongoing project since 2005. There were a total of nine (9) contracts in Fiscal Year 2011/2012 (with total payments of almost \$8.5 million).

4. Job Order Contract

Paving and Resurfacing of Streets and City Facilities (Paving & Resurfacing)

This master contract is for arterial, collector and residential street asset preservation. There were a total of five (5) job orders charged against this JOC contract (with total payments of almost \$1.5 million).

SUMMARY OF AUDIT OBSERVATIONS

Section 1—Vendor Solicitation and Selec- tion	Proper completion of Statement of Qualifications Evaluation forms will facilitate accurate and defendable vendor selection decisions.
	2. Inclusion of the protest policy in the Request for Qualifications (RFQ) will ensure compliance with ARS.
Section 2— Contractual Agree- ments and Terms	3. Consideration of all project performance history can serve to enhance the contractor selection process.
ments and remis	4. Timely and consistent utilization of change orders/addendums will effectively extend contractual terms as needed in accordance with established policies and procedures.
	5. Adherence to "Notice to Proceed" dates will mitigate risks associated with work performed prior to contract execution.
Section 3—Project and Financial Management	6. Established documented procedures can contribute to consistency in Project Manager Assignments.
ment	7. File review checklists can enhance project file documentation and maintenance.
	8. Close monitoring of contract costs will lead to improved budget- ary controls and cost containment.
	9. Full utilization of Project Costing Software will bolster project financial management efforts.
	10. Proper documentation and tracking of contract credits will ensure the proper receipt of refunds due to the City.
	11. The risk of overpayments to contractors can be reduced with adequately supported claimed expenses and verified labor rates.
	12. Delegation of authority to transfer responsibilities to subordinates allows work to systematically carry on within the City.
Section 4—CIP Budg- et	13. Establishment of clear communication channels between Engineering and departments with CIP projects will ensure the timely exchange of information for effective project management.

SUMMARY OF AUDIT RECOMMENDATIONS

- 1.1 Selection committee scoring sheets should be independently reviewed to ensure they are completed in their entirety and are accurately summarized prior to contractor/vendor selection. The selection committee should not be allowed to remove the score sheets; all score sheets should be maintained in the project file. Use of an electronic spreadsheet to calculate scores would eliminate many of the errors found.
- 9.1 In order to more efficiently and effectively manage and track the financial data related to CIP projects, Engineering should pursue training and IT support to utilize this system's capacity. Should accounting resources be obtained (see Recommendation 8.1), this position could be charged with this responsibility.
- 2.1 Engineering should utilize the RFQ template that incorporates all ARS requirements. Adequate internal controls should be in place to ensure that only current templates are utilized by staff.
- 10.1 Credits from one project should not be transferred to another project, especially without clear documentation. Ideally, if a project has a credit balance, the balance should be settled on that project and not applied to another project.
- 3.1 Engineering should work with the City Attorney, City Manager, and Government Relations Offices to determine if pursuing changes to the ARS should become a legislative priority issue for the City.
- 11.1 All payment requests, authorizations and change orders should be properly scrutinized for errors or irregularities and ensure that supporting documentation is provided to support all claimed expenses. Additionally, the rates being submitted for employees should be agreed to what the contract stipulates. Project Managers and their supervisors should be certifying that all supporting documentation was obtained and reviewed prior to approving payments/change orders.
- 4.1 A system should be established that flags contracts nearing expiration to alert project managers and/or additional staff overseeing the projects to be obtained for review to support related payment requests for subconensure proper steps are taken to address work that may extend beyond the contracted dates.
 - 11.2 Subcontractor proposals, including employee hourly detail, should tractor work performed.
- 5.1 Procedures should be established to ensure that all necessary contractual documents are completed prior to work starting on a project.
- 11.3 Contractor allowances should be adhered to; funds from one allowance should not be used to fund another.
- 6.1 Management should develop and document procedures that identify the decision-making process for project assignment. Procedures should also address positions that are funded by Transit and Water. Enterprise funds should not be used to pay for general fund expenses. Employees' hours should be tracked to ensure FTE's equivalent efforts are received in exchange for their funding. Any excess hours should be reimbursed to the relevant fund. Additionally, the Contract Compliance Analyst position's time should be systematically allocated across relevant funding sources as this position works on all projects, not just Enterprise-fund related projects.
- 11.4 Engineering should work with contractors/vendors to resolve all overpayments and underpayments identified in Appendix 1 of the report.

- 7.1 File documentation checklists should be developed for all projects. A checklist would help to ensure completeness and consistency in the project file documentation maintained, including content uploaded to SIRE. The checklist should be comprehensive, indicate what needs to be scanned into SIRE, and provide a space for the Project Manager and an independent party to review the file contents and certify to its completeness. All files should receive a quality-control close-out review.
- 12.1 Delegation of authority should be exercised in situations to adequately assign responsibility when upper management is out of the office and not available to approve documents. The delegation should be written, dated, and identify the individual authorized to sign or conduct business on management's behalf.
- 8.1 Contract costs need to be closely monitored to ensure all transactions are captured in Engineering Main Log, and that individual contract balances in the subsidiary ledger agree to the Main Log and are periodically reconciled.
- 13.1 Engineering should include re-class dates and general ledger transfer numbers in the Engineering Main Log as an audit trail for multiple project financial transactions.

Additionally, Engineering should consider reallocating or obtaining resources to add financial accounting expertise to their staff to assist with the financial reconciliation and monitoring of contract costs. The following could be considered:

Engineering should work closely with departments on tracking project costs and provide timely, routine status reports.

Restructuring existing positions; Funding through the 1.9% component of other miscellaneous fees assessed each contract with direct costs allocated to departments based on contract volume (see Observation #13); Funding through the 2% component of Engineering Fees contributed to the General Fund.